FOREIGN INVESTMENT IN CANADA
ONTARIO BACKGROUND PAPER

15TH ANNUAL
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Office of Economic Policy

Ministry of Treasury, Economics
and Intergovernmental Affairs

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SUMMARY

This paper provides an update on foreign investment data and reviews federal and provincial policies on foreign ownership.

Foreign ownership and control of economic activity is higher in Canada than in any other industrialized country in the world, although Canada's net foreign indebtedness, as a percentage of the Gross National Product, has been declining since 1962. The following highlights of foreign investment in Canada are documented in the report:

- In recent years, direct foreign investments in Canada have constituted approximately 60 per cent of Canada's long term external liabilities.
- Foreign control of economic activity continues to be concentrated in the manufacturing and natural resource sectors.
- In the manufacturing sector, some industries such as rubber, automobiles and parts, aluminium, and chemicals are now almost completely owned by non-residents.
- Investment from the United States constitutes approximately 80 per cent of the total value of all long term foreign investments in Canada.
- Increasing non-resident ownership of land and real estate in all parts of Canada is now a concern of provincial governments.

Under the British North America Act, both federal and provincial governments have responsibilities in the foreign investment area.

Federal Policies

The federal government has enacted restrictions on non-resident equity participation in banks, broadcasting and communications, uranium mines, and loan and trust companies. It has also established a Foreign Investment Review Agency which screens, in consultation with the provinces, potential foreign takeovers of Canadian firms, and will review all new foreign direct investments.

Provincial Policies

Several provinces have also adopted foreign investment legislation. For example, in Ontario, foreign participation in loan, trust and securities companies, and in periodical and paperback distribution, is limited by legislation. In addition, under a 1972 amendment to the Ontario Business Corporations Act, a majority of directors of every company incorporated in the province must be resident Canadians.

Provincial governments have primary responsibility over non-resident land ownership. British Columbia, Alberta, Saskatchewan, Manitoba and Ontario now limit or prohibit the sale of Crown land to non-residents.

In some provinces, legislation limits the sale of privately held land. In Prince Edward Island, for example, there is a ten acre limitation on all land purchases by individuals or corporations not resident in the province. In Saskatchewan, a non-resident of the province is prohibited from holding land of an assessed value in excess of $15,000 in areas outside municipalities. In Ontario, a Land Transfer Tax of 20 per cent of the value of the property is levied on the purchase of land by a non-resident of Canada. A review mechanism is being established to consider exemptions.

Foreign Investment Policies and Economic Development

The extent of Canadian dependence on foreign investment in the future will be related to general Canadian economic performance, the rate of internal savings and long run investment plans. Some provinces will need to rely more heavily on foreign investment to meet their capital needs than will others. Similarly, the legislative response to foreign ownership of land will likely continue to reflect various provincial priorities and perceptions of the problem.

As individual provinces and the federal government continue to adopt regulations and controls in the foreign investment area, there will be an increasing need for interprovincial and federal-provincial coordination within a national economic framework.

I. Statistical Background

Between 1950 and 1973, Canada's net external indebtedness increased over seven-fold, from $4.5 billion to $32.5 billion. However, as a percentage of the Gross National Product, Canada's net external indebtedness has been steadily declining since 1962.

CANADA'S BALANCE OF INTERNATIONAL INDEBTEDNESS
SELECTED YEAR ENDS 1950-1973 ($ billion)

Table 1

	Gross Liabilities to Other Countries	Gross External Assets	Net Indebtedness	Net Indebtedness as Percentage of GNP
1950	10.4	5.9	4.5	24.3
1955	15.2	7.1	8.0	28.1
1960	25.6	8.9	16.6	43.2
1961	27.3	9.6	17.7	44.7
1962	28.8	10.1	18.7	43.6
1963	30.5	10.9	19.6	42.6
1964	32.9	12.5	20.4	40.6
1965	35.3	12.9	22.4	40.4
1966	38.0	14.0	24.0	38.8
1967	40.8	15.5	25.3	38.1
1968	44.4	18.2	26.2	36.1
1969	48.8	20.7	28.1	35.3
1970	52.1	23.6	28.5	33.3
1973p	63.0	30.0	32.5	27.3

Source: Statistics Canada, Daily of April 17, 1974.
Canada's International Investment Position, 1926-1967 (67-202).
Quarterly Estimates of the Canadian Balance of International Payments, Fourth Quarter 1973 (67-001).

Note: p - preliminary estimates by Statistics Canada.

In the post-war period, foreign direct investments in Canada have become predominant relative to other types of foreign investment. From 1950 to 1955 foreign direct investments rose rapidly from 46 to 57 per cent of total long term foreign investments in Canada. Since then, however, they have levelled off at about 60 per cent.

FOREIGN LONG TERM INVESTMENTS IN CANADA
CLASSIFICATION BY TYPE OF ASSETS, SELECTED YEARS 1950-1973 ($ billion)

Table 2

	1950	1955	1960	1965	1970	1973p
Direct Investments	4.0	7.7	12.9	17.4	26.4	32.6
Government Bonds	2.0	1.9	3.3	5.0	7.9	10.2
Other Portfolio Investments	2.4	3.3	4.6	5.1	6.9	7.7
Miscellaneous Investments	0.3	0.6	1.4	2.2	2.9	3.5
Total Investment	8.7	13.5	22.2	29.6	44.0	54.0
Direct Investments as Percentage of Total	46.0	57.0	58.1	58.8	60.0	60.4

Source: Statistics Canada, Daily of April 17, 1974.

Note: p - preliminary estimates by the Ontario Treasury.

These statistics reflect the growth of branch plants and subsidiaries of foreign corporations as well as takeovers of Canadian firms by foreign interests. While Canadian owned companies have also expanded their operations abroad, the book value of these investments is significantly less than the book value of foreign direct investments in Canada.

CANADA'S DIRECT INVESTMENT POSITION ($ billion) Table 3

	Book Value of Canadian Direct Investment	Book Value of Foreign Direct Investment in Canada
1950	1.0	4.0
1955	1.7	7.7
1960	2.5	12.9
1965	3.5	17.4
1970	6.2	26.4

Source: Statistics Canada, Daily of April 17, 1974.

Foreign control of economic activity in Canada has historically concentrated in the manufacturing and natural resource sectors.

FOREIGN CONTROL OF SELECTED CANADIAN INDUSTRIES
SELECTED YEARS, 1939-1973 (Percentage of Capital Employed* Controlled by Non-Residents) — Table 4

	1939	1948	1954	1963	1970	1973^{pf}
Manufacturing	38	43	51	60	61	58
Petroleum and Natural Gas	**	**	69	74	76	77
Other Mining and Smelting	42	40	51	59	70	54
Railways	3	3	2	2	2	2
Other Utilities	26	26	8	4	7	7

Source: Statistics Canada, Daily of March 29, 1974.
Canada's International Investment Position, 1924-1967 (67-202)

Notes: * - The book value of long term debt and equity (including retained earnings) employed in enterprises in Canada.
pf - Ratios are pro forma projections based on the adjustment of 1970 data to reflect subsequent identified changes.
** - Petroleum and natural gas combined with mining and smelting for years 1939, 1948.

In the manufacturing sector itself some industries are now almost completely controlled by non-residents.

FOREIGN CONTROL OF SELECTED CANADIAN MANUFACTURING INDUSTRIES, SELECTED YEARS 1954-1970 (Percentage of Capital Employed Controlled by Non-Residents) — Table 5

	1954	1963	1967	1970
Beverages	20	18	21	40
Rubber	93	96	99	99
Textiles	16	21	22	26
Pulp and Paper	56	48	50	53
Agricultural Machinery	35	49	39	55
Automobiles and Parts	95	95	96	97
Other Transportation Equipment	36	79	76	70
Iron and Steel Mills	NA	14	9	-
Aluminium	NA	100	100	100
Electrical Apparatus	77	76	77	73
Chemicals	76	81	79	81
Other	52	63	54	60
Total	51	60	58	61

Source: Statistics Canada, Daily of March 29, 1974

The United States is the source of about 80 per cent of foreign investment in Canada. Relative to investment from other countries, American long term investment has decreased slightly between 1967 and 1970, but, in absolute terms, American investment increased 26 per cent during the same period. Since World War II, the major shift has been the decline of investment from the United Kingdom and the increase in investment from other countries, such as Japan.

COMPOSITION OF FOREIGN LONG TERM INVESTMENTS IN CANADA BY COUNTRY OF ORIGIN, SELECTED YEAR ENDS 1900-1970 (Percentage of Total Value of Investments) — Table 6

Owned by Residents of	1900	1918	1939	1945	1960	1967	1969	1970
United States	14	36	60	70	75	81	79	78
United Kingdom	85	60	36	25	15	10	9	9
Other Countries	1	4	4	5	10	9	12	13

Source: Statistics Canada, Daily of April 17, 1974.

II Federal and Provincial Policies

The federal government has primary jurisdiction in the area of foreign investment. This derives from its responsibilities under Section 91 of the BNA Act for public debt and property, regulation of trade and commerce, patents and copyrights, and aliens.

To date, the federal government has enacted legislation restricting non-resident equity participation in banks under its banking jurisdiction, in broadcasting and communications under its communications jurisdiction, and in uranium mines under its export powers. There are also de facto limitations on foreign ownership through federal regulatory jurisdiction over airlines and railroads. Both federal and some provincial governments have restricted foreign ownership of loan and trust companies through respective statutes governing provincially and federally incorporated businesses.

With enactment of the Foreign Investment Review Act, the federal government has also undertaken the first step towards providing a national framework within which future foreign investment in Canada can be reviewed. Under this legislation, the Foreign Investment Review Agency has been established to screen, on a case by case basis, potential foreign takeovers of businesses, whenever the value of the business being acquired exceeds $250,000, or when its annual revenues exceed $3 million. In addition, under a section of the Act to be proclaimed in the near future, the Agency will review all new direct investments by foreign interests, including the

expansion into "unrelated" businesses by foreign firms already operating in Canada.

The Act provides the opportunity for provincial governments to consult with the federal government on cases in which particular provinces have an interest.

In evaluating foreign investment proposals, the Review Agency will assess whether such investment is of "significant benefit to Canada". For the present, the evaluations will be based on such criteria as:

- the overall effect of the project on the Canadian economy, and its compatibility with national industrial strategy;
- its impact on such factors as productivity, industrial efficiency, technological development, product innovation and competition; and
- the compatibility of the project with provincial strategies.

While the Foreign Investment Review Act is a good initial step and a potentially powerful tool for selectively directing the pattern of future investment in Canada, certain key issues remain unresolved. First, there is the issue of coordination of the activities of the Review Agency with provincial economic priorities. Second, there is the question of developing a national foreign investment framework which would be part of a broad, long run, economic strategy.

Provincial jurisdiction in the foreign investment policy area derives from provincial responsibilities under Section 92 of the BNA Act for the management and sale of public lands, local works and undertakings, incorporation of companies with provincial objects, and property and civil rights. In addition, under Section 109, the provinces have jurisdiction over natural resources, and prerogative rights deriving from them.

Several provinces have adopted legislation which directly affects foreign investment in their jurisdiction.

In Ontario, legislation limits foreign participation in loan, trust and securities companies, and in periodical and paperback distribution. In addition, under a 1972 amendment to the Ontario Business Corporations Act, a majority of directors of every company incorporated in the province must be resident Canadians.

In British Columbia, where the provincial government has acquired full or controlling interest in a number of companies, some acquisitions have been motivated by the desire to forestall further foreign investment.

In other cases, provinces have adopted policies which indirectly affect foreign ownership and investment. For example, provincial Crown agencies, such as electrical authorities, or other Crown bodies such as the British Columbia Petroleum Corporation, effectively bar non-resident participation. Other indirect policies include legislation in some provinces to encourage the processing of natural resources in Canada.

Of particular concern to the provincial level of government is the non-resident ownership of land. To some extent the non-resident ownership of land in Canada is simply a reflection of the foreign ownership of large sectors of the economy. However, a combination of additional factors have increased the concern of provincial governments in this policy area.

First, general world economic conditions have forced an alteration in investment patterns from assets which are severely depreciated by inflation to commodities and land. These same world economic conditions are encouraging a shift in investment to comparatively more buoyant economies such as Canada's. In addition, Canada is uniquely subject to the demand for recreational land facilities emanating from the large metropolitan centres of the United States, particularly from those states near the Canada-U.S. border.

As an increasing number of countries abroad place controls on non-resident land purchases, foreign investment pressure on land and real estate in Canada will continue. Consequently, most provincial governments have been increasingly concerned with the nature and extent of non-resident land ownership in their jurisdictions.

Some provinces have already enacted legislation restricting non-resident ownership of land. In Prince Edward Island, there is a ten acre limitation on all land purchases by persons not resident in the province. Non-resident individuals or corporations wishing to purchase more than ten acres of land or five chains (about 100 yards) shore frontage, must obtain the approval of the Lieutenant-Governor-in-Council.[1]

In Nova Scotia, a Land Holding Disclosures Act provides that every non-resident individual or corporation owning or acquiring land in the province, must file a disclosure statement regarding land ownership.

In Ontario, a Land Transfer Tax of 20 per cent of the value of the property is levied on the purchase of land (including buildings and fixtures) by a non-resident of Canada, and a review

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1. This legislation was contested before the Supreme Court of P.E.I. and upheld. It is now before the Supreme Court of Canada.

mechanism is being established to consider exemptions. In addition, under the Ontario Land Speculation Tax, a 50 per cent tax is levied on the appreciated value of a recreational property sold to a non-resident. The tax is rebated when vacant land bought by a non-resident is sold back to Canadians within five years, in the form of housing or developed commercial realty. As well, Ontario no longer sells Crown land for private recreational purposes, although such land is leased, with Canadians receiving a one year preference period before non-residents become eligible for leasing.

In Manitoba, ranch and farm grazing permits on Crown lands, as well as certain timber rights, are restricted to Canadian citizens or residents of Canada, or to companies incorporated under the laws of Canada or a province thereof. The disposition of Crown land in the province cannot be granted to persons who are not Canadian citizens or ordinarily resident in Canada.

In Saskatchewan, under an Act to Regulate the Ownership and Control of Agricultural Land in Saskatchewan, a non-resident of the province is prohibited from holding land of an assessed value in excess of $15,000 in areas outside municipalities. Non-agricultural corporations, defined as those not 60 per cent owned and controlled by resident farmers, may not own farmland of more than 160 acres. Saskatchewan also prohibits the sale of Crown land for farming purposes to non-residents of the province, and it discriminates against aliens in the leasing of such lands.

In Alberta, legislation prohibits the sale of Crown land to non-Canadians or corporations where less than 75 per cent of the shareholders are Canadians. This legislation exempts small parcels of land which may be sold for commercial or industrial purposes to non-Canadians. These latter conveyances require the purchaser to sell the land back to the Crown when the property is no longer required for the purpose for which it was purchased.

British Columbia also prohibits the sale of Crown land, and leases it only to Canadian citizens and landed immigrants. As well, under an amendment to the Land Registry Act in June, 1974, a declaration of citizenship must be made when registering ownership of land. In the case of corporations, the citizenship of the directors must be declared, and changes after registration must be reported to the Registrar of Titles.

III Conclusion

There are some indications that the foreign capital requirements of the Canadian economy may be less now than in the past. Since 1950 the level of economic growth and the increasing sophistication of Canadian financial institutions and capital markets have tended to reduce reliance on foreign investment. However, given the large investment requirements relating to such areas as energy development, the extent of Canadian dependence on foreign investment in the future

remains an open question, and one which will be related to general Canadian economic performance, the rate of internal savings and long run investment plans.

Within Canada's regionally diverse economy, some provinces will rely more heavily on foreign investment to meet their capital needs than will others, and, as a result, further foreign investment will be viewed more favourably in some regions of Canada than in others. Similarly, provincial policies regarding the foreign ownership of land will continue to reflect different provincial priorities and various regional perceptions of the problem.

The Canadian federal system ensures, to a significant degree, that policies with respect to foreign investment and ownership will be sensitive to regional interests and aspirations. However, to the extent that the foreign investment policies of one jurisdiction may impinge on the effectiveness of similar policies of another jurisdiction, there will be a need for greater interprovincial and federal-provincial co-ordination in the foreign investment policy area.

In future, one of Canada's major economic issues will be the integration of various foreign investment policies within a national economic strategy. This will require close co-operation between federal and provincial governments.